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UNCLAS OTTAWA 001403

SIPDIS

STATE FOR WHA/CAN - ALAN HOLST, EB/TRA - JOHN BYERLY

STATE PASS USTR FOR SAGE CHANDLER

TRANSPORTATION FOR OST/IA (EDDIE CARAZO, MARY STREET, SUSAN MCDERMOTT)

COMMERCE FOR 4320/ITA/MAC/WH/ONIA (BASTIAN, WORD)

FAA FOR LEEANN HART

TSA FOR SUSAN WILLIAMS

SIPDIS

E.O. 12958: N/A
TAGS: EAIR EINV CA
SUBJECT: Canada announces airport rent reductions with 5-year phase in

¶1. On May 9 Canada's Minister of Transport, Jean Lapierre, announced a new rent policy for federally owned airports. The new policy is expected to result in close to C$8 billion in rent relief for Canada's airport authorities over the life of the airport leases, which are typically for 60 years. For airports currently paying rent, there will be a transition period leading to full implementation of the new rent formula in January 2010. Approximately C$350 million of the estimated C$8 billion in rent reductions will be realized during this 5-year transition period.

¶2. The Canadian airport model is unique. The government retains ownership of the airport lands, although it transferred control of airport management, operation, development and financing to community-based, non-share, not-for-profit, self-financing corporate entities starting in ¶1992. Airports were transferred by way of a long-term lease rather than by placing them on the open market for bids. The lease arrangements are not uniform and were negotiated in an ad hoc fashion. The money collected from the rent payments is not reinvested in the airports, or even the transportation sector; rather, it goes into the government's general revenue fund to be used in any fashion the government wishes. At the end of the 60-year lease, all assets revert back to the government unencumbered.

¶3. Currently nine airport authorities pay rent. These are Calgary, Edmonton, Halifax, Montreal, Ottawa, Toronto, Vancouver, Victoria, and Winnipeg. (The other 16, smaller, airports in the so-called National Airport System have not yet started to pay rent or were transferred outright by the government without lease arrangements.) Toronto, as Canada's largest and busiest airport, will see the largest long-term reduction in rent; the airport will save C$5 billion, rents will be reduced from C$8 billion to C$3 billion over the remainder of the lease period (now about 50 years). Under the current system Toronto airport pays C$140 million a year, 18% of its operating budget, in rent to the federal government. Under the new airport rent formula airports will pay no rent on the first C$5 million of gross revenues, this becomes 1 percent rent on the next C$5 million, 5 percent on the next C$15 million, 8 percent on the next C$75 million, 10 percent on the next C$150 million and 12 percent on any amount over C$250 million in gross revenues.

¶4. The government's decision to reduce the overall amount of airport rents collected over the remainder of the 60-year leases from C$13 billion to C$5 billion has met either muted gratitude or downright disenchantment from industry.

¶5. The Canadian Airports Council noted that although the new rent policy does not provide the immediate and substantial rent relief that the Council had been requesting, they applaud the long-term savings. Airlines were less pleased. Air Canada complained that the reductions offered by the government do not allow Air Canada to reduce air fares, while the Air Transport Association of Canada complained "it's smoke and mirrors, there is a lot of crowing today about what is essentially a de-escalation in the growth rate of rents." Conservative M.P. Dave Batters noted at a Transport Committee hearing on May 9 that at least one international airline (El Al Israel) suggested to him that they may soon make a decision to not fly to Toronto because of high costs at the airport. According to Batters, it costs El